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TAGS: [PREL](#) [PGOV](#) [PTER](#) [MARR](#) [CO](#)
SUBJECT: GOC 'WEALTH TAX' FIGHTS CURRENT AND FUTURE WARS

REF: BOGOTA 1302

Classified By: Political Counselor John S. Creamer
Reasons: 1.4 (b) and (d)

Summary

¶1. (C) Allocation of the \$3.7 billion "wealth tax" (ref A) for 2007-10 defense spending has been a topic of heated debate within the Defense Ministry since its passage by the Colombian Congress late last year. Minister of Defense Santos stressed that his top priorities are purchases that contribute to the defeat of the FARC by 2010. The Army, Police, and Air Force largely adapted their plans to meet Santos's priorities, but the Navy kept a conventional focus. Still, Vice-Defense Minister Jaramillo told us he felt the wealth tax allocation was a "missed opportunity," with too much money dedicated to conventional arms. End Summary.

70% Capital Investment; 30% Arms and Manpower

¶2. (U) On October 30, Defense Ministry official Alejandro Gamboa updated us on the MoD's intended allocation of the wealth tax, which is projected to generate \$3.7 billion between 2007 and 2010. The MOD plans to spend 70 percent on one-time capital investments on equipment (e.g. aircraft, ships, and vehicles purchases and upgrades), 18 percent for additional personnel (mainly 20,000 Police and 14,000 Army), and 12 percent for operating costs (e.g. fuel, contracted flight hours, and munitions). The Army is slated to receive 33 percent of wealth tax funds, the Police 23 percent, the Navy 22 percent, and the Air Force 20 percent.

Wealth Tax Allocation (2007-10)

USD Million

Service	Capital Investment	Operating Costs	Personnel	Total	Share
Army	699	220	276	1,196	33%
Police	401	102	346	849	23%
Navy	757	26	38	821	22%
Air Force	603	104	12	719	20%
Misc.	83	-	-	83	2%

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Totals	2,543	453	672	3,668

Source: Ministry of Defense, 11/8/07

Equipment Investments

13. (C) Per the table below, Army capital equipment proposals center on helicopter mobility, armored vehicles for guarding roads and borders, and artillery and munitions. Funds are also provided for construction of new installations. The Navy request directs three fourths of its budget to upgrade frigates and submarines, with only a small portion for coastal patrol boats and riverine craft. Air Force proposals include transport aircraft, Kfir jet upgrades, helicopter purchases and upgrades, and aerial surveillance platforms. The Police asked for vehicles, weapons, construction of new posts in former conflict zones, and communications equipment.

MoD's Focus: Beating FARC by 2010

14. (C) Santos stressed that his top priorities are purchases that contribute to the defeat of the FARC by the end of President Uribe's term in 2010. Santos invited the U.S. Military Group (MILGP) to advise him on wealth tax priorities and MILGP participated in a series of workshops with the service branches on these issues. In these meetings, Santos repeatedly fought with the Service Chiefs' emphasis on conventional weapons, rejecting numerous programs lacking counter guerrilla impact. Navy proposals were the most contentious, with anti-FARC assets crowded out by costly, open-water conventional weapons. In response to the Admirals' proposal for anti-aircraft weapons, Santos challenged, "How many aircraft does the FARC have?" The Minister refused to sign off on the first version, and continues to review the Navy proposal. Santos accepted Army and Police budgets with less debate. The Air Force adhered to the MoD's goals by emphasizing mobility and ground support, and foregoing F-16 purchases.

USG Guidance -- Heeded in Part

15. (C) Embassy Bogota's recommendations for wealth tax spending, submitted at the MoD's request, were adopted only in part. For the Air Force, we succeeded in shifting jet fighter investment from new purchases to fixes to existing Kfirs and Mirages (only 50 percent operational). On the Army budget, the USG's primary concern was aviation sustainment: on top of already insufficient maintenance and pilot training capacity, assimilation of new helicopters will generate additional costs, which are now due to be covered by wealth tax surplus (see below). With the Navy, the Admirals rejected our call for a large increase in personnel to meet the MoD's goal of controlling twice as many kilometers of Colombian rivers, more aircraft for maritime interdiction, and increased Coast Guard patrol capacity. Vice MoD Jaramillo told us the wealth tax allocation was a "missed opportunity," with too much money going to conventional weapons of little use against the FARC. He blamed the Service Chiefs for stressing prestige items over more practical expenditures.

Tax Surplus: to '08 Nationalization?

16. (C) This year's fall in the U.S. dollar against the peso has boosted the value of the tax in dollar terms, creating an unexpected increase in purchase power. Gamboa did not

estimate the size of the surplus, but a comparison of forecast vs. actual exchange rates indicates it could amount to \$100 million this year alone. Gamboa told us the Ministry planned to use the additional funds to sustain Plan Colombia assets, mainly helicopters. Transfer of those assets to the GOC was recently accelerated, after the GOC budgets for 2008 were already set. The GOC will use its exchange rate gains to cover this additional expense, according to Gamboa. Alternatively, the MoD's Senior Advisor for Congressional Affairs told NAS the MoD was considering asking his Congress to approve an additional tax or a new budget line to fund Plan Colombia nationalization costs.

Appendix: Equipment Expenditures Proposed by Services

USD Million

Service / Item	\$ Million	Share
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ARMY		
- Helicopters	273	39 %
- Armored Vehicles	86	12 %
- Materiel	116	17 %
- Munitions	94	13 %
- Equipment (sundry)	79	11 %
- Site construction	52	7 %
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Subtotal - Army	699	100 %
NAVY		
- Frigates upgrade	417	55 %
- Submarines "	137	18 %
- Coastal patrol units	63	8 %
- Riverine units	60	8 %
- Naval aviation	46	6 %
- Other	33	5 %
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Subtotal - Navy	757	100 %
AIR FORCE		
- Transport aircraft	206	34 %
- KFIR Jet upgrades	171	28 %
- Attack helicopters	74	12 %
- ISR platforms	54	9 %
- Helicopter upgrades	42	7 %
- Infrastructure	29	5 %
- Other	28	5 %
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Subtotal - Air Force	603	100 %
POLICE		
- Motor Vehicles	137	34 %
- Arms & Equipment	63	16 %
- Police posts	62	16 %
- Comms networks	50	12 %
- Directorate	26	7 %
- Other	63	15 %
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Subtotal - Police	401	100 %

Source: Ministry of Defense, October 2007

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